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ABSTRACT

Because most countries in the western hemisphere have rejected authoritarian governments and economic policies for more democratic governments and freer economies, schools have a responsibility to help maintain democracy by teaching their students to take an active role in deciding both their political and economic futures. Healthy democracies demand students, who as adult citizens, understand, assert, and take responsibility for their fundamental political and economic rights. However, it is uncommon for students to learn about citizenship in terms of economic rights--the freedom to hold property, to earn a living and form associations, to operate a business, to invest one's earnings, to trade internationally, and to participate in the market economy. Traditionally, when it comes to the economy mainly abstract theoretical concepts (flow of money, goods, and services, supply and demand) are taught. Often lacking theoretical inclinations, students understand economic concerns better in terms of how to get jobs or how to borrow enough money to buy vehicles or other things they need. Wage and property concerns such as these can be used by teachers to educate students about the economic dimension of citizenship--the choices and limitations each individual has for participating in economic life as an individual and through trade unions, cooperatives, corporations, and other voluntary associations. Specific learning activities and classroom techniques for enhancing economic citizenship education are proposed in the following sections of the paper: "The Individual and the Market Economy"; "Economic Rights and Economic Freedom"; "The Conditions Required for Citizens to Exercise their Economic Rights"; and "Evaluating Economic Freedom." (CB)

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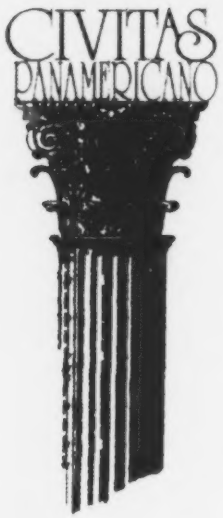

Teaching Economic Citizenship

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Teaching Economic Citizenship

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Introduction: The "New Moment" in the Americas

The Western Hemisphere is at a crucial juncture in its history. Everywhere save Cuba authoritarian methods of governing and statist economic policies have been rejected in the name of greater freedom and opportunity for all. Genuine democracy, the kind that gives people a real say in the decisions that affect their daily lives, may at last become a reality for all, and new economic policies that spur growth and development may finally bring the prosperity that some now enjoy to the impoverished majority.

But democracy and prosperity are not gifts that can be handed down from above for the asking. Rather, they demand a citizenry prepared to play an active role both in governing and in the economy, and this in turn will require a change in perspective on the part of many of those who now live in our Hemisphere. Members of society can no longer be subjects, as in the old authoritarian political cultures; nor can they be part of the masses whose livelihood is provided by others. Instead, they must become citizens: ready to assert their fundamental political and economic rights and willing to accept the corresponding responsibilities these rights entail. Unless this culture of citizenship prevails over the culture of dependency and blind rebellion that has characterized the Hemisphere for too long, the hopes raised by this "new moment" will be frustrated, and the cycle of authoritarianism and poverty is likely to repeat itself.

A crucial element in seizing the opportunities presented by the new moment is education: an awareness of the rights and responsibilities of democratic citizenship must be created and nurtured. Schools have a great vocation to fulfill, for this education must not simply provide students with information about how things are today, but it must inspire them to take action in the future -- to play an active role in the governance of the nation.

One aspect of such education involves strengthening the understanding our peoples have about our system of government and politics. This is the main focus of the conference here in Buenos Aires: how do our electoral systems function, how do our legislatures and courts operate, what rights do all individuals possess, what obligations do we have to pay taxes, serve in the military, and respect the rights of others, whatever their race, sex, or national origin.

But there is another aspect of democratic citizenship that is sometimes not recognized as such. People now encounter one another in daily economic life as property owners, workers, businesspeople, investors, consumers, trade unionists, cooperative members, and so forth. And just as these individuals must know what political rights go with

being a citizen of a democratic polity, so, as participants in a market economy, must they appreciate what their economic rights and obligations are. They must understand their role as "economic citizens."

When our schools attempt to teach young people about the economy, they often begin by assuming a distant, Olympian vantage point. It is almost as if they were looking on economic life as aliens or Martians, peering down from far off through a high-powered telescope. They look at the flow of money, goods, and services and try to explain them to the poor earthling that is caught up in their swirl. Gross Domestic Product, macroeconomic stabilization, trade balances, transfer payments, personal consumption.

Much of this is bewildering to students with no theoretical inclination, and whose economic concerns are focussed more sharply on how to get a job, how to borrow enough money to buy tools, a vehicle, or how to acquire secure title to the family plot or homestead. We need to try to develop an approach to education for economic citizenship that begins at eye-level, not on the mountaintop. It should speak to the needs and interests of our pupils where they are, and not just ask them to accompany us on a space ship to a more distant, "objective" observation point.

What follows are some ideas about how a course in civic education might cover the economic dimension of citizenship in this way. The material does not cover economics, and hence topics such as supply and demand, monetary policy, and macroeconomic stabilization are not included. Nor is knowledge of these and other technical economic concepts a prerequisite.

Economic citizenship is about the choices and limitations each individual has for participating in economic life as an individual and through trade unions, cooperatives, corporations, and other voluntary associations. It also involves the role of the state, which is both limited in the control it exercises over individual economic choices and which also helps establish the conditions required for citizens to have a wide range of instruments for making these choices themselves.

The Individual and the Market Economy

To start, students should be encouraged to identify the different ways in which individuals participate in the free economy. Some work as employees, either in factories or for small businesses. They may contract with their employer directly, or they may join together in trade unions to negotiate the terms of their employment. Those who farm the land may work alone and sell their products themselves, or they

may be part of a production or marketing cooperative. Those who live in cities may operate their own business, whether it be a substantial enterprise or a more modest one, such as taxi service, a small store, or even a stand on a street corner. However the individual earns a living, most will set aside at least some part of these earnings for future purchases or emergencies, either in a bank account or in some other form of savings. Lastly, as consumers or businesspeople, individuals will either purchase goods made abroad or export products made at home.

Property

Besides their roles as wage earners, businesspeople, savers, and traders, individuals participate in the market economy through holding rights to property. Private property is the critical element in a market economy.[1] Markets exist to trade rights in property, and if no one possesses rights over property, there will be no genuinely free market.

Students may not recognize how significant property rights are at first, but a discussion about the different forms of property will easily bring out the point. Many will, of course, live in houses owned by their parents. Without legally defined rights, how could they be sure their family could continue to live in the house? How could the family sell the house if it wanted to move somewhere else? How could a farmer without a well-recognized property right to his land use it as security to obtain credit?

Besides land and buildings, there are property rights in businesses, in inventions, in novels, poems, and other writings, in computer software, and in movies and sound recordings. Even the right of a vendor to occupy the same place on the street each day can be considered a form of property. Property rights are what allow one to sell a business, permit authors, inventors, computer programers, and musicians to make money from their works, and protect street vendors from fighting with one another each day for a place from which to offer goods for sale.

Students should be encouraged to discuss how property rights facilitate these activities and what might be the consequences if property rights were poorly defined or nonexistent. Who would be willing to put the time and effort into developing a new and innovative product if they were unsure whether they could make any money from

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John Gray, *Liberalism*, d. ed. (Minneapolis: University of Minnesota Press, 1995), pp. 61-69; Hernando de Soto, "¿ Despise del Juste, Que?" *Vision*, January 1-15, 1994, pp. 12-16.

its production and sale? Would there be as many and as varied computer programs if there were no way for the writers of these programs to be recompensed for their labor?

The invention of the chronometer, a device for determining a ship's longitude, illustrates what happens in a world without property rights.[2] One of the major obstacles to the development of ocean shipping and international trade during the Middle Ages was the inability of navigators to determine their ship's true location. What was needed was an instrument that could measure a ship's longitude and latitude. While it turned out to be relatively easy to calculate latitude using the position of the Pole star or the sun, measuring longitude was a much greater challenge, and one no one could afford to pursue without some hope of reward if successful.

At this time, however, there were no laws giving an inventor the exclusive right to his or her invention. As a result, there was no incentive for a person to devote the effort required to develop a chronometer, for without a law vesting exclusive rights in the inventor, once the device had been created anyone could make a copy without paying the inventor a fee. The problem was finally overcome when a reward was offered for the invention of such a device. Phillip II of Spain first offered a prize of 1000 crowns, the government of Holland then raised it to 100,000 florins, and the British government later increased it to £20,000.

Nonetheless, it was still decades before the reward was finally claimed, and in the interim many ships were lost at sea. In addition, the world was deprived of the benefits of trade between Europe and Asia, and Europe and the Americas because the lack of a chronometer made ocean-going trade difficult and costly. Historians agree that had there been a system of patent laws in place giving inventors property rights in what they create, a chronometer would surely have appeared much sooner.

Economic Rights and Economic Freedom

Rights are interests society protects because they help an individual achieve an important objective. A market economy exists to provide citizens with the opportunity to support themselves and their families and otherwise pursue economic ends of their own choosing. The ways in which individuals participate in the market economy -- by earning a living, operating a business, saving, trading, owning property, and joining together to pursue these ends in voluntary associations such as trade unions,

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See Douglass C. North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973) p.3.

cooperatives, and business corporations -- are the ways in which they seek to achieve their economic goals. They are thus an individual's economic rights, for if citizens are denied any of these opportunities, the chances they will attain their desired economic ends will be reduced significantly.

Direct Restraints on Economic Freedom

Government guarantees some rights in a market economy, but governments often deny or violate economic rights. Students could be encouraged to discuss the different ways government affects economic freedom. Government might dictate the wages that individuals can be paid for working different jobs, or it might deny workers the right to form a union to bargain with their employer over wages. It might specify the prices at which businesses can sell their products. Controls on what goods could be purchased from abroad or sold overseas might be imposed or limits on the return families might receive on the money they have deposited in a bank could be decreed.

With the collapse of communism, most nations have scrapped comprehensive restrictions on individual's economic rights, realizing that whatever the motive for introducing them, they have not worked as intended. There are, however, a handful of countries where such pervasive economic controls remain in effect. Two are North Korea and Cuba, where the communist belief that economic decisions are best commanded by central authority lingers. In both, wages are determined not by an agreement freely arrived at between employer and employees but by government fiat. In neither country are citizens free to buy imported goods, sell what they make at the price they want, or otherwise engage in any significant economic activity that is not under the direct control of undemocratically state authorities.

Students should be encouraged to consider what the North Korean and Cuban governments must do to enforce such controls, both in terms of the number of people government must employ and how deeply government must intrude into the daily lives of its citizens to see that its economic dictates are being observed. If everyone's wage is set by the government, doesn't this mean that a government inspector must visit each factory and business to see the law is being obeyed? What if an inspector suspects that a worker is earning more than the government says he or she is entitled to? How can the inspector know for sure? One way would be to carefully audit the family's living expenses to see if they exceeded what the family could afford on a government wage. While such an investigation would disclose whether government wage controls were being violated, wouldn't this be an extraordinary intrusion into the family's private life?

While North Korea and Cuba represent the extreme, other nations continue to impose selective controls on the economy in an effort to guide economic development or favor one group over another. Commonly termed "directed capitalism," this model is most closely identified with nations in East Asia -- Japan, Singapore, South Korea, Taiwan, and Malaysia. In Japan and South Korea, for example, governments gave a few large companies complete freedom to pursue business opportunities both at home and abroad while denying other firms the same rights. Although some believe that such restrictions on economic freedom produced higher rates growth, recent research has called this thinking into question.[3] Indeed, many of Japan's current economic problems appear to be a direct result of earlier limits on economic freedom.

The Relationship Between Economic and Political Freedom

A discussion of government controls on economic life leads naturally into a consideration of how economic and political freedom are related.[4] When governments first tried to impose wide-ranging controls in the early part of the 20th century, some warned that pervasive economic control would lead to a loss of political freedom,[5] a warning that history has born out. This happened in Germany under Hitler, the Soviet Union before its collapse, as well as in Cuba and North Korea today. Not only does the historical evidence suggest that wherever citizens have been denied economic freedom, they have been denied political freedom as well, but no country has ever enjoyed a democratic political system without first possessing a significant degree of economic freedom.[6]

A recent study by the American nongovernmental organization Freedom House shows a direct relationship between economic and political freedom.[7] With few exceptions, the more political freedom a nation's citizens enjoy, the more economic freedom they are

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Paul Krugman, "The Myth of Asia's Miracle," *Foreign Affairs*, vol. 73, no. 6, November-December 1994, pp. 62-78.

American educators recommend that secondary school courses on economics devote an entire unit of study to the relationship between economic and political freedom. See James Dick, Jeffrey Blais, and Peter Moore, *Civics and Government: Focus on Economics* (New York: National Council on Economic Education, 1996) pp.10-15.

See, for example, Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

Peter L. Berger, "The Uncertain Triumph of Democratic Capitalism," *Journal of Democracy*, vol.3, no. 3, July 1992, pp. 7-17.

World Survey of Economic Freedom: 1995-1996, Richard E. Messick, ed. (New Brunswick: Transaction Publishers, 1996).

likely to posses as well. Likewise, those countries with little political freedom are also likely to have little economic freedom as well. This relationship has even been found to hold among those countries that recently abandoned communist economic controls.[8] Among the nations of Eastern Europe and the former Soviet Union, those that are more democratic are also those where citizens enjoy higher levels of economic freedom.

How does government power over citizens' economic life lead to an abridgement of their political liberties? The tiny East Asian city-state of Singapore offers a contemporary example. Although today its citizens enjoy a certain degree of economic and political freedom, the government still maintains sufficient control over the economy to rein in political dissent. Freedom House found that political opponents of the government were subjected to selective tax audits, their businesses investigated for alleged wrongdoing, and banks pressured to cut off lines of credit.[9] Whenever government retains power over the economic activities of its citizens, there will be a temptation to use economic pressure to enforce political conformity at the expense of their political freedom.

The Conditions Required for Citizens to Exercise their Economic Rights

While few governments today curtail the economic freedoms of their citizens through such intrusive measures as direct controls over wages, prices, and the like, there are still only some two dozen countries where citizens enjoy full, unrestricted rights to earn a living, operate a business, save, trade, or own property.[10] Why? Because the exercise of these rights demands more than a government which simply abstains from direct interference in the day-to-day economic decisions of its citizens. As the World Bank explained in its 1996 report on world economic development, for markets to function properly at a minimum there must be an environment where force and fraud are suppressed, contracts enforced, and property rights defined.[11] Douglass North,

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Martha de Melo, Cevdet Denizer, and Alan Gelb, *From Plan to Market: Patterns of Transition*, Policy Research Working Paper 1564 (Washington, D.C.: World Bank, 1996), pp. 23-25.

World Survey of Economic Freedom: 1995-1996, pp. 167-69. See also Christopher Lingle, "Singapore: Communitarian Capitalism," *Reason*, vol. 28, no. 5, October 1996, pp. 46-47.

Ibid. p. 9. See also James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom of the World: 1975-1995*, (Vancouver: The Fraser Institute, 1996); Bryan T. Johnson and Thomas P. Sheehy, *1996 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation, 1996).

World Bank, *From Plan to Market: World Development Report 1996* (Oxford: Oxford University Press, 1996) p.5.

recipient of the Nobel Prize in Economics, points out that without such a legal and institutional framework, citizens simply are not free to exercise their economic rights.[12] The failure to provide such a framework is why so many countries nominally committed to a free economy still fall so short. In Russia and Romania, for example, intimidation and extortion are common business practices. In Bangladesh land records are in disarray. In Indonesia, only the ruler's friends are truly free to do business; in Saudi Arabia, only men of the dominant religious sect fully enjoy this right.

Students should be asked to consider how these kinds of institutional and legal failings stand in the way of economic freedom for all citizens. Where physical intimidation and extortion are part of the business climate, wouldn't many simply be afraid to go into business? If land records are not properly kept, how can anyone be sure who is the true owner of a parcel of land? How can sales and purchases take place under such conditions? How can mortgages and other credit transactions based on land ownership be effected?

It may be obvious that where friendship of someone in government is required to operate a business, economic freedom is limited. But what if instead of friendship a bribe is required to obtain a permit to open a business? Is this a limit on economic freedom? What if the size of the bribe required is beyond the ability of those of modest means to pay it?

Latin America and the Informal Sector

Despite the progress many Latin American governments have made in freeing their economies from state control, most Latin Americans are still unable to participate fully in the market economy. In Mexico, Bolivia, and Peru while the right to own property is recognized by law, government land registries do not reflect who is actually in possession of the land. Ownership rights therefore remain uncertain. In Brazil, Costa Rica, and Uruguay, those who wish to open a business confront a maze of government red tape before they can operate legally. In Columbia and El Salvador it is difficult for employees to join together to seek higher wages or better working conditions. And throughout the Hemisphere, citizens who seek to enforce their economic rights in court must contend with a judicial system that is slow, inefficient, and even corrupt.

Douglass C. North, "Institutions, Economic Growth and Freedom: An Historical Introduction," in *Freedom, Democracy and Economic Welfare*, Michael Walker, ed., (Vancouver, B.C.: The Fraser Institute, 1988) p. 3-4.

Hernando de Soto and his colleagues at Lima's Institute for Liberty and Democracy were the first to focus attention on the lack of a legal and institutional infrastructure necessary to permit all in Latin America to participate in the market economy. In Peru, they found that it could take an individual wanting to operate a minibus service as long as two and one-half years to get permission to do so, that those wanting to set up a small garment factory had to spend 289 days complying with government rules and obtain 11 different permits, and that it would take a family seeking to obtain vacant state land for housing almost seven years to secure the necessary permissions.[13] In short, they discovered that not only did Peru not have the legal and institutional structures needed for all Peruvians to participate in the market economy but that much of the existing structure worked to deny citizens access to the market economy.

Those in Peru and other Latin nations unable to obtain business licenses, land titles, or otherwise comply with the legal measures necessary to fully exercise their economic rights do not simply disappear as a result. Rather, in most cases they go forward with their plans anyway. They run businesses without government operating permits and hold land without a genuine legal title.[14] In *The Other Path*, their prize-winning book about conditions in Peru, de Soto and his colleagues dubbed those living and working outside the law in this way "informals" and called the sum of their activities the "informal economy." *The Other Path* contrasts these informals with the "formals," those able, thanks to family connections, wealth, or other reasons, to meet the legal requirements and thus to operate in the formal, legal economy.

Although several Latin nations have made progress in bringing those in the informal sector into the formal, legal economy, much remains to be done. Students should be asked to describe the extent of informality in their own country. Do those living in the settlements on the outskirts of the city have a genuine, legal title to their land? How difficult is it for an individual of modest means to obtain a license to operate a business? Do women or indigenous peoples face obstacles to participation in the market economy that others do not?

Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World* (New York: Harper & Row, 1989), pp. 133-149.

See, for example, Paul Holden and Sarath Rajapatirana, *Unshackling the Private Sector: A Latin American Story* (Washington, D.C.: World Bank, 1995).

Although the informal economy "works," in that people are able to operate businesses, hold property, and otherwise function economically, it does not work well. An informal business labors under many handicaps -- it cannot enter into legally binding contracts, cannot advertise, or obtain banks loans, and must remain small to avoid detection by the authorities. Land owned informally is also far less valuable than equivalent land with formal title: informal land cannot be sold easily and cannot be used to secure a loan. The Institute for Liberty and Democracy has shown that because of these and other handicaps that arise from informality, most of those in the informal sectors remain very poor.

The relationship between informality and poverty is part of a broader relationship researchers have discovered between the lack of economic freedom on the one hand and an absence of economic growth and development on the other. An increasing number of studies are finding a strong correlation between the two.[15] Those countries where citizens are free to exercise their economic rights tend to enjoy higher levels of growth and wealth than those where government either intervenes in economic life directly or else fails to create the legal and institutional environment needed for citizens to exercise these rights.

Evaluating Economic Freedom

One exercise students might undertake is an evaluation of the level of economic freedom in their own or a neighboring country. As the discussion above has shown, whether citizens can freely participate in the market economy depends on two things. The first is the extent to which government hinders or prevents its citizens from exercising their rights to --

own property,
earn a living and form associations,
operate a business,
invest their earnings, and
trade internationally.

See, for example, *Economic Freedom of the World: 1975-1995; 1996 Index of Economic Freedom*; *World Survey of Economic Freedom: 1995-1996*; and Surjit S. Bhalla, "Freedom and Economic Growth: A Virtuous Cycle?" in Axel Hadenius, ed., *Democracy, Victory and Crisis: Noble Symposium 1994* (Cambridge: Cambridge University Press, 1996).

Genuine economic freedom requires that all citizens enjoy these rights equally, and thus restrictions that would prevent certain groups within society, such as women, members of minority groups, or indigenous peoples, from exercising them must be taken into account as well. The second factor that must be evaluated is whether there is a legal and institutional framework within which citizens can exercise these rights.

The following are some of the factors that might be taken into account. They are from the Freedom House study of economic freedom discussed earlier. The group rated the degree of economic freedom in 82 countries around the world, including 13 in Latin America, using these criteria. The class' evaluation of their own or a neighboring country can be compared with the one the Freedom House analysts produced.

Freedom to Hold Property. Is the right to property recognized by law? In other words, do the constitution and laws of the country protect citizens' rights to possess property? Some provisions to look for: If the government decides to take an individual's land to build a road or for another public purpose, is it required to pay a fair price for the property? Are there provisions protecting the rights of inventors and authors in the form of patent, trademarks, and copyright laws? Is there a well-managed land registry that accurately reflects ownership rights? Are there restrictions on selling or exchanging property? Can an individual leave his or her property to whoever he or she chooses at death? Can individuals own property jointly or communally or must they hold it as individuals? Finally, even if there are such provisions in the law, do the courts enforce them fairly?

Freedom to Earn a Living and Form Associations. Are individuals free to work for whom they wish at a wage freely arrived at? Here are some factors to consider: Are wages freely set, either by a agreement between the individual and his or her employer or between the employer and the union to which the employee belongs? Can workers form unions to bargain over wages and working conditions? Are the unions governed by the decisions of their members or does the state control them? Can producers, consumers and professionals form independent organizations? Can individuals change jobs freely? Are there any vestiges of indentured servitude, debt peonage, or slavery?

Freedom to Operate a Business. Some may prefer to earn a living by setting up a business rather than by working for another person, and often two or more persons will decide to work together to create a business. In deciding whether citizens are free to operate a business, the following should be considered: Can individuals freely join together to pursue mutual economic interests by creating corporations or other forms of business organizations? Are the prices for products and services produced by

business set by the individual firms or does the government dictate the price? Are the rules governing the formation of business enterprises so complex that large sectors of the population are foreclosed from forming businesses? Is entry into certain lines of commerce restricted? In many countries, an important source of income for business are the contracts government issue for goods and services and therefore it can be important to know whether government contracts are competitively let.

Freedom to Invest One's Earnings. Individuals and families usually put aside some of their earnings for the future, and at the same time, there will be others who want to borrow money to open a businesses, build a house, or cover an unanticipated expense. Savers have a right to receive payment for the use of their money in the form of interest. In considering whether the right to save is infringed, the following factors should be examined: Are interest rates that banks pay on savings accounts regulated by the government? Does the government determine who is entitled to borrow money? Are the rates of return on money individuals invest in businesses, real estate, or other investments controlled? Can individuals open banks accounts abroad? Can they hold foreign currency and securities? Is there an independent central bank or other institutional mechanism to protect citizens' savings loss through inflation?

Freedom to Trade Internationally. Are there restrictive tariffs, quotas, or other barriers to importing goods from abroad? Are there export taxes or other impediments that interfere with citizens' ability to sell to foreigners? Is foreign investment regulated? Are there exchange controls? Some individuals may earn more working overseas, and restrictions that would keep them from traveling are thus a limit on economic freedom as well.

Freedom to Participate in the Market Economy. Are racial or ethnic minorities or women foreclosed from certain occupations or from running certain types of businesses? Are there limits on minorities or women's rights to hold or transfer property? Is corruption so widespread as to interfere with normal market forces?
Conclusion

Our Hemisphere stands at the threshold of a new era. For the first time in its history the rights of its peoples to choose their leaders, to participate in government decisions that affect their daily lives, and to prosper from their own labor is unchallenged. We know from experience that the grant of political rights, by themselves, does not transform the way a society is governed. Rather, that transformation only comes when the people take an active part in political life, when they go from being subjects to being citizens.

A similar process will be required if our people's newly won economic rights are to bring the growth and prosperity that the Hemisphere so desperately needs. We must instill a sense of what is required to participate in a free economy, what it means to be an economic citizen. This is a worthy, if challenging, task for civic education.